K. Christ / History of Economic Thought

7: The Marginalist Revolution

Outline

I. Political economy at mid-century (1820s – 1850s)
   In England, the Ricardian influence was strong, although it is probably the case that Smith’s *Wealth of Nations*, which blended history and theory, remained more influential than Ricardo’s more analytical *Principles*. In 1848, Mill’s *Principals of Political Economy* became the standard English text. In France Jean Baptiste Say (1767 – 1832), an expositor of Smith, was the leading economist. Today, Say’s name is typically associated with “Say’s Law”. In German-speaking areas a more historical approach to economics, influenced by Smith’s book, contrasted sharply with the deductive approach of Ricardo. In short, there was no single flavor to European classical economics, which was still evolving and working out the mechanics of Smith’s invisible hand.

II. Precursors to marginalism
   ∙ Samuel Bailey (1791 – 1870) argued for a subjective theory of value (in opposition to the more traditional labor theory of value).
   ∙ Nassau Senior (1790 – 1864) developed a theory of profits that thought of them as a reward for abstaining from consumption.
   ∙ August Cournot (1801 – 1877) used mathematics explicitly, and developed a relatively modern approach to monopoly and market structure.
   ∙ Johann Heinrich von Thünen (1783-1850) used a hypothetical economy to develop his ideas
   ∙ Hermann Heinrich Gossen’s (1810 – 1858) first and second “laws” seem today to be early statements of diminishing marginal utility and consumer equilibrium conditions.

III. First generation marginalists (1870s)
   ∙ Stanley Jevons (1835 – 1882) consciously sought to correct the “errors” of English classical economics by making it more rigorous and grounding it in utilitarianism and a marginal utility theory of value.
   ∙ Leon Walras (1834 – 1910) used mathematics extensively, and like Jevons was extremely critical of classical economics. Today, in addition to being considered one of the founders of the marginalist approach, Walras is also associated with the concept of general equilibrium.
   ∙ Carl Menger (1840 – 1921) was the most explicit of the three in enunciating a subjective theory of value. He was also the least mathematical. His disciples, Wieser and Bohm-Bawerk became associated with the development of an “Austrian” school of economics, which is marked by a strident adherence to methodological individualism.
   ∙ Collectively, the contributions of these three men (and their almost simultaneous publications of treatises in the early 1870s) are sometimes referred to as the marginalist revolution.

IV. Marshall and the professionalization of economics (1880s to early 1900s)
   In 1885, Alfred Marshall (1842 – 1924) delivered his inaugural lecture as the Chair of Political Economy at Cambridge University, in which he declared “what is most wanted now is the power of keeping the head cool and clear in tracing and analyzing the combined action of many combined causes.” During his tenure, economics became professionalized, and his *Principles of Economics* (1890) replaced Mill’s *Principles of Political Economy* as the standard English text. Other important figures in this era of transformation include:
   ∙ Francis Edgeworth (1845 – 1926)
   ∙ Vilfredo Pareto (1848 – 1923)
   ∙ Arthur Cecil Pigou (1877 – 1959)
   ∙ John Bates Clark (1847 – 1938)
   ∙ Irving Fisher (1868 – 1947)